SHORT SUMMARY OF PROPOSED PLAN C

SHELBY COUNTY RETIREMENT SYSTEM

SEPTEMBER 13, 2004

The Shelby County Retirement System Board of Administration is in the process of reviewing drafts of formal documents which, if and when approved by the Board and the County Commission, will establish a new County retirement plan, tentatively called Plan C. This is a short summary of what is currently anticipated to be the substance of Plan C. Because the Plan C document is approximately 90 pages long and because Plan A itself will be amended at the same time as Plan C is adopted, this short summary will necessarily omit details that may be important to some County employees.

There is no guarantee that the County Commission will approve Plan C, as drafted, or will approve any changes in the Retirement System. This summary assumes that Plan C, as currently drafted, will be approved and come into existence.

Effective Date

It is expected that it will take at least six months to properly and adequately educate all County employees as to the terms of Plan C and their options. This process will require individual evaluation in many cases. Due to the necessity of the education process, it is unlikely that Plan C's effective date will be before July 1, 2005.

Participation

Each Plan A active employee-participant on the effective date will have the option to stay in Plan A or to leave Plan A and become a participant in Plan C instead. The election will be irrevocable. All eligible employees hired on or after the effective date will be required to participate in Plan C and may not participate in Plan A.

Public safety employees who currently participate in Plan A will <u>not</u> have the option to remain in the 25-and-out portion of Plan A. Their options will be (1) to move to Plan C and retain the right to retire before age 65 and receive an unreduced pension after 25 years of credited service or (2) to remain in Plan A and lose the right to retire before age 65 and receive an unreduced pension after 25 years of credited service (in which case they will be entitled to full refund of their existing employee contributions accounts).

Contributions

Participant Contributions

As a condition of employment, each Plan C participant will be required to contribute 6% of his base compensation to the existing Trust Fund, which currently contains the assets of Plans A and B. These contributions will be "pre-tax"; that is, participants will not pay federal income tax on the amounts of their own contributions.

To keep track of these participant contributions, a separate bookkeeping account will be established in the Trust Fund for each participant. There will be added to the separate bookkeeping accounts the amounts contained in the existing bookkeeping accounts maintained for Plan A's public safety employees who elect to join Plan C. The separate bookkeeping accounts are called "participant contributions accounts." No separate investment accounts will be maintained.

At the end of each quarter, interest will be added to each bookkeeping account based on the balance at the beginning of the quarter. The interest factor will approximate 5% compounded annually.

The participant contributions accounts, including the interest factor, are fully "vested" and non-forfeitable at all times. That is, regardless of how long a participant is employed by the County, he will never be entitled to a benefit that is less than his participant contributions account.

County Contributions

The County will contribute to the Trust Fund what is necessary to maintain the actuarial soundness of all three of the plans. However, for Plan C participants, there will be established another bookkeeping account called the "matching account." At the end of each calendar quarter, there will be added to the matching account of each participant an amount equal to 50% of his participant contributions. Interest will be credited to the matching accounts in the same percentage and in the same way as interest is added to the participant contributions account.

A participant's matching account, including the interest factor, is totally forfeited if he terminates employment without having completed seven and one-half (7 ½) years of credited service.

Credited Service

Credited service will be calculated in exactly the same way as it is calculated in Plan A.

Participant Benefits

Transition Period

If a Plan A participant elects to become a participant in Plan C and terminates employment within five (5) years, his pension benefits will be calculated under Plan A, not Plan C. If he was not a public safety employee while under Plan A, then his participant contributions account will be refunded to him. If he was a public safety employee while under Plan A, then the amount of the refund will be the difference between his Plan C participant contributions account and the employee contributions account he would have had, if the original 25-and-out plan had remained in effect and he had remained a participant in it. Any refunds may be rolled over in whole or in part into an IRA or other qualified tax deferral vehicle, if desired.

Post-Transition Period

Plan C provides the benefits described below for transferees from Plan A for participants who terminate employment after the end of the five (5) year transition period. The benefits will be the same for participants hired after the effective date.

Optional Cash Distributions

Upon termination but before beginning to receive a monthly pension, all such participants will have the right to withdraw from the Trust Fund an amount equal to the lesser of (1) the sum of his participant contributions account and (if vested) his matching account or (2) $50,000. This withdrawal is called an "optional cash distribution." If, at the time of his termination, a participant was either not entitled to draw or had elected to defer drawing an immediate pension, he may take one withdrawal at time of termination and, if so desired, one at time of retirement, so long as the total of the two optional cash distributions do not exceed the amount described in the preceding sentence. Each optional cash distribution must be in a multiple of $1,000, however.

If desired, each optional cash distribution may be rolled over in whole or in part into an IRA or other qualified tax deferral vehicle.

No optional cash distributions may be made before termination of employment or after beginning to receive a monthly pension.

Normal Retirement Pension

If a participant terminates employment and has at least 25 years of credited service, he is entitled to a monthly "normal" retirement pension for life, regardless of his age. The amount of the normal retirement pension is the higher of two calculated amounts.

In the first calculation, three figures are multiplied together: (1) his "final average earnings" (determined in the same way as in Plan A); (2) his years of credited service (no more than 35); and (3) 2.35%; the result is then reduced actuarially by the amount of any optional cash distributions he has elected to receive. For example, if a participant's final average earnings is $3,000 a month, if he has exactly 25 years of credited service, and if he does not take any optional cash distributions, then his monthly pension will be $1,762.50 ($3,000 x 25 x .0235).

The second figure is calculated by actuarially converting the sum of his participant contributions account and his matching account (after reduction for all optional cash distributions) into a monthly pension.

Early Retirement Pension

If a participant terminates employment at or after age 55 and has fewer than 25 years of credited service, he is entitled to a monthly "early" retirement pension for life, if he has at least seven and one-half (7 ½) years of credited service. Again, the amount of the early retirement pension is the higher of two calculated amounts.

In the first calculation, three figures are again multiplied together: (1) his final average earnings; (2) his years of credited service (no more than 35); and (3) a percentage contained in a Table which is based on the participant's age at the time he begins to draw his pension. The result is also then actuarially reduced by the amount of any optional cash distributions made to him. For example, if a participant's final average earnings is $3,000 a month, if he has exactly 23 years of credited service, if he terminates employment at age 58 exactly (or if he terminates employment at age 55, 56, or 57 but does not begin to draw his pension until he is 58 exactly), and if he does not take any optional cash distributions, then his monthly pension will be $1,337.74 ($3,000 x 23 x .0193875). (The Table percentage for an early retirement pension beginning at age 58 is 1.93875%.)

The second calculation is the same calculation described in the Normal Retirement Pension section above.

Deferred Vested Retirement Pension

If a participant terminates employment before age 55, he is entitled to a monthly "deferred vested" retirement pension for life if he has at least seven and one-half (7 ½) years of credited service. Once again, the amount of the deferred vested retirement pension is the higher of two calculated amounts.

In the first calculation, three figures are again multiplied together: (1) his final average earnings; (2) his years of credited service (no more than 35); and (3) a percentage contained in another Table which is based on the participant's age at the time he begins to draw his pension. The result is also actuarially reduced by the amount of any optional cash distributions made to him. For example, if a participant's final average earnings is $3,000 a month, if he has exactly 23 years of credited service, if he terminates employment at age 53 exactly, if he begins to draw his pension when he is 58 exactly, and if he does not take any optional cash distributions, then his monthly pension will be $821.79 ($3,000 x 23 x .01191). (The Table percentage for a deferred vested retirement pension beginning at age 58 is 1.191%.)

The second calculation is the same calculation described in the Normal Retirement Pension section above.

As in Plan A, a deferred vested retirement pension is required to be cashed out if its actuarial value is $20,000 or less.

Optional Pensions

As in Plan A, subject to the consent of his spouse (of at least three (3) years), each participant will be able to choose among several optional forms of pensions rather than the normal life-only pension. For example, an unmarried participant with a child may elect a pension for his life with a continuing pension for the life of his child. If so, the amount of his pension will be less than the life-only pension; it will be actuarially reduced to reflect the fact that it is expected to be payable over a longer period of time.

Cost of Living Increases

As in Plan A, there will be cost-of-living increases beginning when the participant attains age 65.

Survivor Benefits

Death of Active Participant

Upon the death of an actively employed participant, pensions are payable to both his surviving dependent children and to his surviving spouse. (As in Plan A, only spouses of at least three (3) years are entitled to survivor benefits.)

The children are entitled to a total of 50% of the participant's final average earnings so long as any child continues to meet the definition of "dependent child." The definition of "dependent child" is the same as in Plan A.

The surviving spouse of a participant with fewer than 15 years of credited service is entitled to the sum of his participant contributions account and his matching account (to the extent vested). It is payable in a lump sum.

The surviving spouse of a participant with 15 or more years of credited service is entitled to a monthly pension, which is the greater of (1) 75% of a pension calculated by multiplying the participant's final average earnings by his years of credited service and by 2.35%, with such pension payable when the spouse attains age 65, or (2) the actuarial equivalent of the sum of the participant's participant contributions account and his matching account. If the greater benefit is the 75% pension and the spouse is under age 65, the spouse may elect an actuarially reduced pension to begin earlier.

Death of Terminated Participant

If a terminated participant who is receiving a retirement pension other than an "optional pension" dies, his surviving spouse is entitled to 75% of his retirement pension to begin at age 65. Again, the spouse may elect an actuarially reduced pension to begin earlier than age 65.

If a terminated participant who is not yet eligible to receive a retirement pension dies, his surviving spouse's pension options are the same as if he had been an active employee when he died.

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